

SB 16 (Wieckowski)

Student Loan Repayment Parity

PROBLEM

More than 40 million Americans have student loan debt. Now at \$1.3 trillion, education debt outpaces credit card debt as the leading source of household debt. These mortgage-sized loans cause many graduates to postpone buying a home, getting married, starting a family, and saving for retirement. And while average student debt hit a record above-\$30,000 this year, income growth has not kept pace with the rise in student loans or housing costs.

There are many programs in place to help people with Federal student loans. Options include:

- Deferment (postpone payments for a period of time and interest does not accrue)
- Forbearance (postpone payments for a period of time and interest does accrue)
- Cancellation/Discharge (part or all of the loan balance is forgiven)
- Income-Contingent Repayment
- Income-Based Repayment.

Private lenders are not required to, and usually don't, offer different repayment options based on a borrower's circumstances. Some private lenders have created programs for "distressed" student borrowers: Wells Fargo and Discover Bank have offered limited cancellation programs for borrowers who die or become permanently and totally disabled.

EXISTING LAW

Private student loan creditors can garnish up to 25% of a young person's disposable income. Federal student loan servicers however can only garnish up to 15% of a worker's wages.

While Federal loan borrowers are afforded more repayment flexibility, making it less likely they will default, private student loan

borrowers consistently struggle to negotiate with their creditors.

If a borrower does default and faces a wage garnishment for Federal loans, she still has more advantages.

A Federal loan borrower in default has:

- 1) The right to receive a 30-day notice beforehand;
- 2) The right to request and inspect copies of loan documents;
- 3) The right to request a hearing and present evidence that the garnishment should not happen, and;
- 4) The right to enter a repayment plan with the loan servicer.

There are no such rights for private student loan borrowers.

SUMMARY

This bill would better level the playing field of student loan collection by matching the private garnishment maximum to the Federal garnishment maximum – 15%.

There is no rationale for treating a struggling borrower with private loans any differently than one with Federal loans.

SB 16 will benefit thousands of borrowers in California – home to an estimated \$20 billion in outstanding private student loan debt.